

Message Text

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ACTION EUR-12

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COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

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AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USDEL MTN GENEVA

AMCONSUL ZURICH

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DEPT PASS TREASURY AND FRB

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TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF JAN 4-10

1. SUMMARY: FOREIGN EXCHANGE RATES WERE RELATIVELY STEADY THIS WEEK, BUT GOLD PRICES DECLINED IN ACTIVE TRADING. A SWISS NATIONAL BANK (SNB) OFFICIAL STATED THAT THE SNB FULLY SUPPORTS THE IMF DECISION TAKEN IN JAMAICA TO LEGALIZE FLOATING EXCHANGE RATES AND INDICATED THE SWISS ARE SATISFIED WITH THEIR PRESENT IMF OBSERVER STATUS. THE MONEY AND CAPITAL MARKETS ARE STILL VERY LIQUID AND INTEREST
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RATES DECLINED FURTHER. THE AMOUNT OF THE CONFEDERATION'S

JANUARY BOND ISSUE WAS INCREASED IN LIGHT OF THE GOOD SUPPLY OF FUNDS. THE FEDERAL BANKING COMMISSION IS TO BE ENLARGED AND GIVEN GREATER SUPERVISORY POWERS OVER BANKS IN SWITZERLAND. UNEMPLOYMENT ROSE AGAIN IN DECEMBER, AND THE FEDERAL GOVT ANNOUNCED THE THIRD IN A SERIES OF PROGRAMS SINCE MID-1975 TO STIMULATE THE ECONOMY AND EMPLOYMENT. PRELIMINARY ESTIMATES SHOW REAL GNP DROPPED 4 PERCENT IN 1975.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: ALTHOUGH EXCHANGE RATES WERE RELATIVELY STEADY THIS WEEK, THE MARKET WAS QUITE ACTIVE. THE CONTINUED DECLINE IN THE US SHORT-TERM INTEREST RATES KEPT THE DOLLAR UNDER DOWNWARD PRESSURE WHICH WAS PARTIALLY OFFSET BY SNB DOLLAR PURCHASES. THE 0.5 PERCENTAGE POINT CUT IN THE OFFICIAL DISCOUNT AND LOMBARD RATES ALSO HELPED TO REDUCE THE DEMAND FOR FRANCS. GOLD TRADING WAS VERY ACTIVE AND THE PROSPECT OF IMF GOLD SALES PUSHED PRICES TO A LOW OF \$128.50 ON JAN 14. RATES AS FOLLOWS:

	1/12(OPEN)	1/16(CLOSE)
SPOT DOLLAR	SF 2.6015	SF 2.5995
FORWARD DISCOUNTS (PCT. P.A.)		
ONE MONTH	- 4.6	- 4.9
2 MONTHS	- 4.0	- 4.4
3 MONTHS	- 3.7	- 4.1
6 MONTHS	- 3.5	- 3.6
12 MONTHS	- 3.3	- 3.3
SF/DM	SF 99.92	SF 99.92
GOLD	\$136.25	\$130.50

3. SWITZERLAND AND THE IMF: IN A PUBLIC STATEMENT ISSUED THIS WEEK, SNB DIRECTOR JOHN LADEMANN, WHO ATTENDED THE IMF MEETING IN JAMAICA LAST WEEK ALONG WITH SNB PRESIDENT LEUTWILER, SAID THE SNB FULLY SUPPORTS THE LEGALIZATION OF FLOATING EXCHANGE RATES. WITH REGARD TO THE INCREASE IN CREDIT FACILITIES FOR DEVELOPING COUNTRIES, HOWEVER, HE WAS LESS SATISFIED. LADEMANN EXPRESSED THE FEAR THAT THE MORE LIBERAL CREDIT ARRANGEMENTS "WILL WEAKEN INTER-
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NATIONAL MONETARY DISCIPLINE." MORE AND MORE COUNTRIES WILL USE THE IMF TO CORRECT BALANCE-OF-PAYMENTS PROBLEMS INSTEAD OF TRYING TO SOLVE THE BASIC PROBLEMS WITH THEIR OWN MEANS. LADEMANN INDICATED THE NATIONAL BANK IS SATISFIED WITH ITS PRESENT OBSERVER STATUS IN THE IMF; AS A FULL MEMBER SWITZERLAND WOULD HAVE TO BE ASSOCIATED WITH A GROUP OF SMALLER COUNTRIES WITH ONLY ONE REPRESENTATIVE.

4. MONEY AND CAPITAL MARKETS: THE LIQUID CONDITION OF THE SWISS MONEY AND CAPITAL MARKETS, DECLINING EURO-MARKET INTEREST RATES, AND UPWARD PRESSURE ON THE SF PROMPTED THE SNB TO REDUCE THE OFFICIAL DISCOUNT AND LOMBARD RATES BY 0.5 PERCENTAGE POINTS ON JAN 13. THE DISCOUNT RATE IS NOW 2.5 PERCENT AND THE LOMBARD RATE IS 3.5 PERCENT. CALL MONEY WAS READILY AVAILABLE AT 0.25 PERCENT ALL WEEK WITH FEW TAKERS. FOR THE SECOND TIME IN AS MANY WEEKS, THE BIG SWISS BANKS HAVE ANNOUNCED REDUCTIONS IN THE INTEREST RATES ON FIXED-TERM DEPOSITS; ON JAN 13 THE RATE FOR DEPOSITS WITH MATURITIES OF 3-5 MONTHS WAS CUT FROM 2.25 TO 1.5 PERCENT, THAT ON 6-11 MONTH DEPOSITS FROM 3.0 TO 2.25 PERCENT, AND THE RATE ON 1-YEAR DEPOSITS FROM 4.0 TO 3.5 PERCENT. THE FOLLOWING DAY THE BANKS LOWERED THE RATES ON MEDIUM-TERM BONDS; 3-4 YEAR BONDS WERE CUT FROM 5.25 TO 5.0 PERCENT, AND THE RATE ON 5-8 YEAR BONDS WAS REDUCED FROM 6.0 TO 5.5 PERCENT. LOWER INTEREST RATES ARE STIMULATING ACTIVITY ON THE SWISS STOCK MARKETS AND PRICES CONTINUED TO RISE; THE SKA INDEX ROSE FROM 202.9 (END 1959 EQUALS 100) ON JAN 9 TO 205.4 ON JAN 16. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS FELL FROM 5.86 PERCENT LAST FRIDAY TO 5.61 PERCENT ON JAN 9.

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5. CONFEDERATION BOND ISSUES: IN VIEW OF THE HIGHLY LIQUID CONDITIONS PREVAILING IN THE SWISS CAPITAL MARKET, THE FEDERAL COUNCIL DECIDED TO INCREASE THE AMOUNT OF THE NEW CONFEDERATION BOND ISSUE SCHEDULED FOR THIS MONTH (SEE BERN 0135). THE ORIGINAL AMOUNT OF SF 500 MILLION WAS RAISED TO SF 700 MILLION, THE ISSUE PRICES WAS INCREASED FROM 98.5 TO 99 PERCENT OF PAR, AND THE ISSUE PERIOD CHANGED TO JAN 16-22. THE COUPON WAS LEFT UNCHANGED AT 6.25 PERCENT. THIS BOND ISSUE REPRESENTS LESS THAN HALF OF THE TOTAL SF 1,500 MILLION THE CONFEDERATION PLANS TO ISSUE THIS YEAR. WITH THE CONFEDERATION'S 1976 BUDGET CALLING FOR A DEFICIT OF SF 1,200 MILLION (WHICH DOES NOT INCLUDE UNCLASSIFIED

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SOME SF 400 MILLION IN PROPOSED NEW ANTI-RECESSION EXPENDITURES-- SEE ITEM 8 BELOW), PLUS AN ADDITIONAL SF 1,550 MILLION NEEDED TO FINANCE THE ANTICIPATED DEFICITS OF THE RAILWAY AND POSTAL SYSTEMS, THE CONFEDERATION WIL NEED APPROX SF 2,750 MILLION IN DEFICIT FINANCING DURING 1976. CURRENT PLANS CAL FOR SF 1,500 IN PUBLIC BOND ISSUES, SF 500 MILLION IN NOTES PLACED WITH SWISS BANKS, AND SF 450 MILLION IN FOREIGN EXCHANGE CREDITS FROM THE SNB. ASSUMING THERE ARE NO SIGNIFICANT CHANGES IN CAPITAL MARKET CONDITIONS, THE GOVT DOES NOT EXPECT THAT THESE FINANCING NEEDS WILL SERIOUSLY AFFECT INEREST RATES.

6. CHANGES IN BANKING COMMISSION: THE FEDERAL COUNCIL HAS ANNOUNCED THAT THE FEDERAL BANKING COMMISSION (WHICH LICENSES AND SUPERVISES ALL BANKS IN SWITZERLAND UNDER THE BANKING LAW OF 1934, AS AMENDED IN 1971) WILL BE REORGANIZED AND GIVEN ADDITIONAL POWERS. THE COMMISSION IS BEING INCREASED FROM SEVEN TO THE LEGAL MAXIMUM OF NINE MEMBERS, SEVERAL EXISTING MEMBERS WILL BE RETIRED AND REPLACED, AND THE STAFF OF THE COMMISSION'S SECRETARIAT WILL BE INCREASED FROM 3 TO 6. EFFECTIVE APR 1, 1976, DR DANIEL BODMER WILL STEP DOWN AS CHIEF OF THE SECRETARIAT (BUT WILL BECOME A MEMBER OF THE COMMISSION) AND BERNHARD MUELLER, PRESENTLY

ASST DIR IN CHARGE OF LEGAL AFFAIRS IN THE FINANCE ADMINISTRATION, WILL REPLACE HIM WITH THE NEW TITLE OF SECRETARIAT DIRECTOR. IN ADDITION, THE FEDERAL COUNCIL PLANS TO ASK PARLIAMENT FOR AN AMENDMENT TO THE BANKING LAW TO PERMIT GREATER CONTROL OVER THE PRIVATE AUDITING FIRMS WHICH ACT AS BANK EXAMINERS IN SWITZERLAND. THE COUNCIL PROPOSES TO GIVE THE COMMISSION THE AUTHORITY TO REQUEST MORE FREQUENT AUDIT REPORTS AND TO RECEIVE COPIES OF ALL SUCH REPORTS EVEN IF AN AUDITING COMPANY FINDS NOTHING OUT OF ORDER. (THE PRESENT LAW REQUIRES AN AUDITOR TO FIRST INFORM A BANK'S DIRECTORS IF ANY IRREGULARITIES ARE FOUND AND ONLY IF NO CORRECTIVE ACTION IS TAKEN WILL THE COMMISSION BE INFORMED.)

ECONOMIC

7. UNEMPLOYMENT JUMPS AGAIN: THE NUMBER OF OFFICIALLY UNCLASSIFIED

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REGISTERED UNEMPLOYED WAS 26,258 (ABOUT 0.9 PERCENT OF THE LABOR FORCE) AT THE END OF DECEMBER. THIS IS 29.2 PERCENT MORE THAN IN NOVEMBER AND APPROX TEN TIMES THE NUMBER OF UNEMPLOYED A YEAR EARLIER. THE UNEMPLOYMENT PROBLEM IS EXPECTED TO WORSEN IN THE COMING MONTHS.

8. ANTI-RECESSION PROGRAM: IN RESPONSE TO GROWING PUBLIC CONCERN ABOUT RECESSION AND UNEMPLOYMENT, THE FEDERAL COUNCIL IS PREPARING THE THIRD IN A SERIES OF PROGRAM SINCE MID-1975 TO STIMULATE THE ECONOMY. THIS LATEST ANTI-RECESSION PROGRAM WILL BE MADE PUBLIC AT THE END OF JANUARY AND WILL BE SENT TO PARLIAMENT FOR CONSIDERATION DURING THE MARCH SESSION. ACCORDING TO INITIAL PRESS REPORTS, THE PROGRAM WILL CONSIST OF FOUR PARTS: A) SUPPLEMENTARY CREDITS TO INCREASE EMPLOYMENT, B) ADDITIONAL CREDITS TO PROMOTE MORE INVESTMENT AND PUBLIC WORKS BY CANTONAL AND MUNICIPAL GOVTS AND BY PUBLIC CORPORATIONS, C) MODIFICATION OF EMPLOYMENT LAWS TO ENCOURAGE THE HIRING OF MORE YOUNG PEOPLE, WHO MAKE UP ABOUT HALF THE UNEMPLOYED, AND D) ALLOCATION OF MORE FUNDS TO PROMOTE TOURISM IN SWITZERLAND. THE WHOLE PACKAGE IS EXPECTED TO COST APPROX SF 900 MILLION OVER A 3-YEAR PERIOD, WITH ABOUT SF 400 TO BE SPENT IN 1976. THE FEDERAL COUNCIL REJECTED THE POSSIBILITY OF FINANCING THESE ADDITIONAL EXPENDITURES BY HIGHER TAXES BUT WILL RELY INSTEAD ON CAPITAL MARKET BORROWING. IN A RADIO INTERVIEW, ECONOMICS MINISTER BRUGGER CHARACTERIZED THE DECEMBER LEVEL OF UNEMPLOYMENT AS "NOT GOOD, BUT NOT DESPERATE EITHER." BRUGGER EXPRESSED THE HOPE THAT THE GOVT'S EFFORTS TO STIMULATE ECONOMIC ACTIVITY AND EMPLOYMENT

WOULD HELP TO STABILIZE THE SITUATION.

9. GNP IN 1975. SWITZERLAND'S REAL GNP FELL 4 PERCENT
IN 1975 ACCORDING TO A PRELIMINARY ESTIMATE BY A GOVT
STUDY GROUP. THIS IS ONLY THE THIRD YEAR SINCE
WORLD WAR II IN WHICH REAL GNP FELL (THE OTHER TWO YEARS
WERE 1949 AND 1958).

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